

3067E
126441

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 11 A.M.
THURSDAY, MARCH 14, 1985

STATEMENT OF
JAMES R. WATTS
SENIOR GROUP DIRECTOR
INFORMATION MANAGEMENT AND
TECHNOLOGY DIVISION
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS
HOUSE COMMITTEE ON ENERGY AND COMMERCE
ON THE
SECURITIES AND EXCHANGE COMMISSION'S
ELECTRONIC DATA GATHERING,
ANALYSIS AND RETRIEVAL (EDGAR) SYSTEM



MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

WE ARE PLEASED TO BE HERE TODAY TO DISCUSS THE RESULTS OF OUR BRIEF INQUIRY INTO THE SECURITIES AND EXCHANGE COMMISSION'S (SEC) CURRENT EFFORTS TO DESIGN AND PILOT TEST ITS EDGAR (ELECTRONIC DATA GATHERING, ANALYSIS, AND RETRIEVAL) SYSTEM. THE PRIMARY IMPETUS FOR EDGAR IS SEC'S DESIRE TO REALIZE THE BENEFITS AFFORDED BY TODAY'S COMPUTER AND TELECOMMUNICATIONS TECHNOLOGY BY ELECTRONICALLY RECEIVING, ANALYZING, AND DISSEMINATING CORPORATE DISCLOSURE INFORMATION WHICH IS PRESENTLY FILED WITH THE SEC IN PAPER FORM.

031476 126441

RECOGNIZING IT WAS VENTURING INTO UNPROVEN TERRITORY, THE SEC WISELY CHOSE TO PILOT TEST A SUBSET OF THE FULL OPERATIONAL SYSTEM.

WE BEGAN OUR INQUIRY ON FEBRUARY 22 AT THE REQUEST OF YOUR STAFF. UNDER THE CIRCUMSTANCES OUR INQUIRY WAS NECESSARILY BRIEF; NONETHELESS, WE HAVE IDENTIFIED SOME TECHNICAL ISSUES REGARDING THE PILOT TEST AND THE PLANNED FOLLOW-ON OPERATIONAL SYSTEM, WHICH YOU MAY WISH TO PURSUE WITH THE SEC. WITH RESPECT TO THE PILOT SYSTEM, THE TECHNICAL ISSUES REVOLVE AROUND:

- (1) WHETHER SUFFICIENT TECHNICAL EXPERTISE IS BEING APPLIED TO OVERSEEING AND EVALUATING THE PILOT PROJECT;
- (2) WHETHER SEC'S DECISIONS TO ELIMINATE OR SIGNIFICANTLY SCALE BACK CERTAIN ANALYTICAL FUNCTIONS IN THE PILOT WILL SEVERELY CONSTRAIN SEC AND THE PUBLIC FROM REALIZING THE POTENTIAL BENEFITS ORIGINALLY ENVISIONED FOR EDGAR; AND
- (3) WHETHER SOME OF SEC'S CONTRACTING PRACTICES ON THIS PROJECT HAVE BEEN IMPROPER OR QUESTIONABLE.

FOR THE FULL OPERATIONAL SYSTEM THERE IS A POLICY QUESTION ON THE SETTING OF FEES TO BE CHARGED TO THE PUBLIC FOR OBTAINING INFORMATION UNDER THE PROPOSED CONCEPT OF A NO COST CONTRACT. WE ALSO BELIEVE THE SEC NEEDS TO ADDRESS THE MERITS OF ITS PLAN TO INCLUDE WITHIN THE SCOPE OF THE OPERATIONAL SYSTEM SEVERAL AUTOMATED FUNCTIONS AND ELECTRONIC FILINGS WHICH WILL NOT HAVE BEEN PILOT TESTED.

SCOPE OF GAO INQUIRY

BEFORE I PROCEED WITH AN OVERVIEW OF THE PROJECT AND A DISCUSSION OF THESE ISSUES, I WOULD LIKE TO BRIEFLY DESCRIBE THE SCOPE OF THE WORK WE PERFORMED. WE INTERVIEWED SENIOR MEMBERS OF THE SEC

TEAM IMPLEMENTING EDGAR, AND THE KEY TEAM MEMBERS FROM MITRE AND ARTHUR ANDERSEN, THE TWO KEY CONTRACTORS ON THE PROJECT. INFORMATION ABOUT THE DESIGN AND STATUS OF EDGAR WERE OBTAINED FROM INTERVIEWS AND SUPPORTING DOCUMENTS. BECAUSE OF TIME LIMITATIONS WE DID NOT CONDUCT INDEPENDENT TESTS TO VERIFY ALL THE INFORMATION PROVIDED TO US. SENIOR GAO STAFF WITH ADP EXPERTISE REVIEWED ALL DOCUMENTS KNOWN AND MADE AVAILABLE TO US REGARDING THE CONTRACTS WITH MITRE AND ARTHUR ANDERSEN, AND THE TECHNICAL DOCUMENTS DEALING WITH THE PLANS AND STATUS OF THE EDGAR SYSTEM.

BACKGROUND

RECOGNIZING THAT IT HAD LIMITED TECHNICAL RESOURCES TO DESIGN AND INSTALL THE EDGAR SYSTEM, THE SEC HIRED MITRE CORPORATION IN SEPTEMBER 1983 TO HELP IT ASSESS ITS TECHNOLOGY NEEDS FOR DISCLOSURE INFORMATION, DEFINE THE PILOT SYSTEM, SELECT A PILOT SYSTEM CONTRACTOR, EVALUATE THE PILOT SYSTEM, AND DEVELOP THE TECHNICAL SPECIFICATIONS AND RFP (REQUEST FOR PROPOSALS) FOR THE OPERATIONAL SYSTEM. THE TOTAL COST OF THE TWO MITRE CONTRACTS IS ABOUT \$467,000.

IN JANUARY 1984, THE SEC ISSUED A SOLICITATION FOR THE PILOT SYSTEM AND SPECIFIED MARCH 9, 1984, AS THE CLOSING DATE FOR RECEIPT OF PROPOSALS. FOUR PROPOSALS WERE RECEIVED. THE SEC EVALUATED THE PROPOSALS AND ON APRIL 27, 1984, AWARDED A LETTER CONTRACT TO ARTHUR ANDERSEN. THE TERMS AND CONDITIONS OF THE CONTRACT SUBSEQUENTLY WERE DEFINITIZED ON JUNE 21, 1984. THIS IS A COST PLUS A FIXED FEE CONTRACT CURRENTLY VALUED AT ABOUT \$9.2 MILLION. THE PILOT TEST WAS BROKEN INTO THREE PHASES; SOME OF THE MAJOR CONTRACTUAL REQUIREMENTS ARE:

PHASE I TO BE COMPLETED BY SEPTEMBER 30, 1984:

- (1) INSTALL COMPUTER HARDWARE/SOFTWARE; AND
- (2) RECEIVE ELECTRONIC FILINGS FROM VOLUNTEER CORPORATIONS.

PHASE II TO BE COMPLETED BY APRIL 30, 1985:

- (1) INSTALL ADDITIONAL HARDWARE/SOFTWARE AS NEEDED;
- (2) PROVIDE TECHNOLOGY TO AUTOMATICALLY "TAG" DATA (TO QUICKLY LOCATE AND RETRIEVE COMMON DATA ELEMENTS FROM NON-STANDARD FORMATS).
- (3) DEVELOP ROUTINES FOR AUTOMATICALLY SELECTING FILINGS FOR EXAMINATION;
- (4) DEVELOP ROUTINES TO AUTOMATICALLY CONSTRUCT A FINANCIAL PROFILE (CALCULATE RATIOS); AND
- (5) PROVIDE FOR ELECTRONIC DISSEMINATION OF DATA.

PHASE III TO BE COMPLETED BY MAY 1986:

- (1) REFINE AND TEST FUNCTIONS IN PHASE II.

WE HAVE BEEN TOLD THAT THE APRIL 30, 1985 MILESTONE FOR PHASE II HAS SLIPPED 2 MONTHS TO JUNE 30, 1985. ALSO, THE SCHEDULE FOR IMPLEMENTING THE OPERATIONAL SYSTEM HAS BEEN REVISED. THE DATE FOR ISSUING THE RFP HAS BEEN CHANGED FROM DECEMBER 1, 1984 TO JULY 1, 1985. MORE TIME IS BEING ALLOWED FOR PROPOSAL PREPARATION AND EVALUATION OF THE PILOT; CLOSING DATE FOR SUBMITTING PROPOSALS IS NOW DECEMBER 1, 1985, AND THE ANTICIPATED AWARD DATE IS NOW MARCH 1, 1986.

WITH RESPECT TO THE FOLLOW-ON OPERATIONAL SYSTEM, SEC ENVI- SIONS A CONTRACTOR OPERATED SYSTEM DIVIDED INTO TWO MAJOR COMPO- NENTS. ONE COMPONENT WILL BE DEVOTED TO SATISFYING SEC'S LEGAL

RESPONSIBILITY TO RECEIVE, STORE, AND DISSEMINATE FILING INFORMATION. THE OTHER COMPONENT WILL BE DEDICATED ENTIRELY TO THE SEC TO HANDLE ITS MISSION-RELATED DATA PROCESSING NEEDS. THIS PROPOSED SEPARATION IS INTENDED TO ENSURE THAT SEC-PRIVILEGED INFORMATION CANNOT BE ACCESSED BY OUTSIDERS AND THAT REQUESTS FOR INFORMATION BY THE PUBLIC WILL NOT DEGRADE DATA PROCESSING RESPONSE TIME.

THE CONTRACTOR WOULD RECOVER ITS COSTS THROUGH THE SALE OF BASIC SERVICES TO INSTITUTIONS AND INDIVIDUALS IN THE FORM OF BOTH BULK AND NON-BULK DATA TRANSACTIONS. THE CONTRACTOR WOULD ALSO BE FREE TO MARKET A WIDE ARRAY OF VALUE-ADDED SERVICES. THE SEC ANTICIPATES CONSTRUCTING THE CONTRACTUAL ARRANGEMENTS IN SUCH A MANNER AS TO PERMIT THE CONTRACTOR TO PRICE ITS BASIC DISSEMINATION PRODUCTS AT A RATE ADEQUATE TO PERMIT THE RECOVERY WITHIN SEVEN YEARS OF ITS INVESTMENT IN BOTH THE SEC AND ITS OWN BASIC OPERATION. THE SEC WOULD RETAIN CONTROL OVER THE PRICES CHARGED FOR BASIC DISSEMINATION SERVICE; IT WOULD NOT SET PRICES FOR VALUE-ADDED SERVICES.

NOW, I WOULD LIKE TO RETURN TO THE FOUR ISSUES I MENTIONED BEFORE AND DISCUSS THEM BRIEFLY. FIRST...

IS THERE ADEQUATE
TECHNICAL OVERSIGHT?

AS I MENTIONED EARLIER SEC HIRED MITRE TO OBTAIN THE TECHNICAL EXPERTISE IT NEEDED TO OVERSEE AND EVALUATE THE PROJECT. ONE OF THE SPECIFIC REQUIREMENTS IN MITRE'S CONTRACT WAS TO "ASSIST IN THE EVALUATION OF THE PILOT SYSTEM" AND PRODUCE MONTHLY MEMOS STARTING IN JUNE 1984 ON THE RESULTS OF THE EVALUATIONS. THIS TASK INCLUDED DESIGNING TESTS OF THE SYSTEM, CONDUCTING THE TESTS, AND PROVIDING

MONTHLY WRITTEN EVALUATIONS OF THE RESULTS. AFTER MITRE DELIVERED ITS FIRST MONTHLY REPORT AND A DRAFT OF THE SECOND, SEC TOLD MITRE TO PREPARE NO MORE WRITTEN EVALUATIONS AND LIMIT THEIR EFFORTS TO GIVING VERBAL EVALUATIONS BASED ON REVIEWS OF DATA AND DOCUMENTS SUPPLIED BY ARTHUR ANDERSEN. THE CONTRACT WAS NOT MODIFIED TO DOCUMENT THESE CHANGES NOR EXPLAIN WHY THE CHANGES WERE MADE. BECAUSE SEC DOES NOT APPEAR TO HAVE SUFFICIENT TECHNICAL EXPERTISE, AN INDEPENDENT TECHNICAL ASSESSMENT OF THE PILOT IS NOT NOW BEING MADE. ALSO, IT IS QUESTIONABLE IN OUR MIND WHETHER MITRE WILL BE ABLE TO PRODUCE A TOP QUALITY TECHNICAL SPECIFICATION FOR THE RFP OF THE OPERATIONAL SYSTEM WITHOUT CONDUCTING "HANDS-ON" ASSESSMENTS AND PROVIDING WRITTEN REPORTS.

WILL THE CUT-BACKS IN
FUNCTIONS OF EDGAR
CURTAIL ITS POTENTIAL BENEFITS?

BASED UPON EVIDENCE OBTAINED IN OUR INQUIRY IT APPEARS THAT THREE FUNDAMENTAL FEATURES INITIALLY ENVISIONED FOR EDGAR HAVE BEEN ELIMINATED OR AT LEAST SIGNIFICANTLY WITHDRAWN FROM THE PILOT SYSTEM. THESE ARE (1) AUTOMATED TAGGING OF DATA IN ORDER TO ALLOW QUICK IDENTIFICATION AND RETRIEVAL OF COMMON DATA ELEMENTS; (2) AUTOMATED SELECTION OF FILINGS TO DETERMINE WHICH ONES ARE IN GREATEST NEED OF A REVIEW OR EXAMINATION; AND (3) AUTOMATED DEVELOPMENT OF FINANCIAL PROFILES.

IT IS OUR UNDERSTANDING THAT INFORMATION IN FILINGS WILL NOT BE SUBMITTED IN A STANDARDIZED FORMAT BECAUSE SEC DID NOT WANT TO IMPOSE REPORTING STANDARDS ON CORPORATIONS. RATHER, THE CORPORATIONS (FILERS) WILL PUT SOME BRIEF IDENTIFICATION INFORMATION

(E.G. FILER NAME, DATE, TYPE OF FILING ETC.) AT THE FRONT OF EACH FILING AND SUBMIT THE DATA IN WHATEVER FORMAT THEY CHOSE.

TO COMPENSATE FOR THE LACK OF STANDARDIZATION IN THE FILINGS, ARTHUR ANDERSEN STATED IN ITS PROPOSAL THAT IT WOULD USE COMPUTER SOFTWARE TO AUTOMATICALLY TAG (IDENTIFY) DATA IN THE NON-STANDARD FILINGS. THIS WOULD PERMIT THE TAGGED DATA TO BE MORE EFFICIENTLY ACCESSED AND USED TO PERFORM CALCULATIONS AUTOMATICALLY. HOWEVER, WE HAVE BEEN ADVISED BY ARTHUR ANDERSEN THAT AUTOMATIC TAGGING HAS BEEN DROPPED FROM THE PILOT.

ANOTHER ESSENTIAL FEATURE OF EDGAR, THE AUTOMATED SELECTION OF FILINGS FOR REVIEW, HAS BEEN CHANGED ACCORDING TO THE ARTHUR ANDERSEN PROJECT MANAGER AND THE FUNCTIONAL SPECIFICATIONS WHICH STATE THAT "THE SYSTEM WILL NOT DECIDE WHETHER OR NOT A REVIEW IS REQUIRED, ...RATHER IT WILL PROVIDE THE REVIEWER WITH ACCESS TO THE INFORMATION THAT IS USED TO MAKE THIS DECISION." ANOTHER REQUIREMENT TO "AUTOMATICALLY CONSTRUCT A FINANCIAL PROFILE (CALCULATE RATIOS) WITHIN A FILING" HAS BEEN ELIMINATED FROM THE PHASE II SPECIFICATIONS. THEREFORE, SEC EMPLOYEES PERFORM THE SELECTION PROCESS AND CALCULATE THE RATIOS BY SCANNING DATA IN THE EDGAR SYSTEM.

IT IS NOT TOTALLY CLEAR WHY THESE CHANGES HAVE BEEN MADE. IT APPEARS THAT THE DEVELOPMENT OF THE AUTOMATED TAGGING, AUTOMATED SELECTION CRITERIA, AND AUTOMATED FINANCIAL PROFILES WAS TAKING MORE TIME TO DEVELOP THAN THE TIME PERMITTED FOR THE PILOT. ELIMINATING OR CUTTING BACK ON THESE CAPABILITIES CREATES SIGNIFICANT IMPLICATIONS FOR THE DESIGN OF EDGAR AND THE POTENTIAL PRODUCTIVITY IMPROVEMENTS IT CAN PROVIDE. FOR EXAMPLE, IF SEC'S INTENTIONS ARE

TO INCORPORATE THE ABOVE CAPABILITIES INTO THE OPERATIONAL SYSTEM, THEN THERE ARE SERIOUS QUESTIONS REGARDING THE VIABILITY OF THE PILOT TEST. ON THE OTHER HAND, IF THE CAPABILITIES OF THE OPERATIONAL SYSTEM ARE LIMITED TO THOSE INCLUDED IN THE PILOT TEST, THEN EXPECTED PRODUCTIVITY GAINS CAN BE SERIOUSLY JEOPARDIZED.

ARE SEC'S CONTRACTING PRACTICES ACCEPTABLE?

IN EXAMINING THE EDGAR CONTRACT FILES FOR MITRE AND ARTHUR ANDERSEN WE NOTED THAT SEC (1) DID NOT OBTAIN A DELEGATION OF PROCUREMENT AUTHORITY (DPA) FROM THE GSA (GENERAL SERVICES ADMINISTRATION) FOR THE PILOT SYSTEM CONTRACT WITH ARTHUR ANDERSEN, AND (2) DID NOT FORMALLY MODIFY THE MITRE AND ARTHUR ANDERSEN CONTRACTS TO REFLECT THE CHANGES TO THE TASKS WHICH HAVE OCCURRED UNDER THE CONTRACTS.

ACCORDING TO THE SEC CONTRACTING OFFICER, SEC WAS NOT REQUIRED TO OBTAIN A DPA BECAUSE IT WAS ONLY PROCURING ADP SERVICES, NOT HARDWARE. NONETHELESS, UNDER THE PILOT CONTRACT, ARTHUR ANDERSEN IS ACQUIRING COMPUTER HARDWARE AND SOFTWARE WHICH WILL BECOME THE PROPERTY OF THE SEC. WHILE PRIOR GSA APPROVAL IS NOT REQUIRED FOR THE PROCUREMENT OF ADP SUPPORT SERVICES, GSA AUTHORIZATION MAY STILL HAVE BEEN NECESSARY. THE REGULATIONS PROVIDE THAT AGENCIES SHALL SEVER THE REQUIREMENTS FOR COMMERCIALY AVAILABLE ADP EQUIPMENT AND PROVIDE IT TO THE CONTRACTOR AS GOVERNMENT FURNISHED EQUIPMENT WHENEVER IT IS FEASIBLE TO DO SO. THERE IS NO INDICATION THAT SEC CONSIDERED OBTAINING A DPA PRIOR TO AUTHORIZING ARTHUR ANDERSEN TO PURCHASE THE COMPUTER HARDWARE OFF GSA SCHEDULE CONTRACTS. SEC OFFICIALS STATED THAT THIS PROCUREMENT METHOD WAS

UTILIZED BECAUSE OF THE TIGHT TIMEFRAMES FOR IMPLEMENTING THE PILOT SYSTEM. WE NOTE THAT GSA SCHEDULE PRICES USUALLY EXCEED THE PRICES OBTAINED IN COMPETITIVE PROCUREMENTS ON AN AVERAGE OF 30 PERCENT.

WITH RESPECT TO CHANGES IN THE SCOPE OF THE CONTRACTS, I HAVE ALREADY MENTIONED THAT MITRE WAS DIRECTED IN JULY OR AUGUST 1984 TO CUT-BACK ON ITS EVALUATION OF THE PILOT SYSTEM WITHOUT A CORRESPONDING CHANGE TO THE CONTRACT. WE UNDERSTAND THAT ACTIONS ARE NOW BEING TAKEN TO MODIFY THE CONTRACT. IN ANOTHER INSTANCE THE IBM 4341 INITIALLY INSTALLED FOR THE PILOT WAS UPGRADED TO AN IBM 4381 ON NOVEMBER 3, 1984, AT AN ADDITIONAL COST OF ABOUT \$290,000, WITHOUT PREPARING A MODIFICATION TO THE CONTRACT OR IDENTIFYING THE ACCOUNTS FROM WHICH THE ADDITIONAL FUNDS WOULD BE OBTAINED. ACCORDING TO A CONTRACT FILE DOCUMENT DATED JANUARY 16, 1985, (ABOUT 2 1/2 MONTHS AFTER INSTALLATION).

"THE UPGRADE WOULD BE FUNDED, ALTHOUGH A PARTICULAR ACCOUNT HAD NOT YET BEEN IDENTIFIED. A PR [PURCHASE REQUEST] REQUESTING THE UPGRADE IN ACCORDANCE WITH [ARTHUR ANDERSEN'S] DEC. 18, 1984 LETTER WAS SIGNED AND SUBMITTED TO THE PC BRANCH TODAY. FUNDING AVAILABILITY CERTIFICATION WAS ALSO INDICATED ON THE PR."

AT THE CLOSE OF OUR INQUIRY LAST WEEK THE CONTRACT STILL HAD NOT BEEN MODIFIED.

SHOULD THE SCOPE OF
THE OPERATIONAL SYSTEM
BE GREATER THAN THE PILOT?

ACCORDING TO MITRE--WHICH IS DEVELOPING THE SPECIFICATIONS FOR THE OPERATIONAL SYSTEM--THE SCOPE OF THE FOLLOW-ON OPERATIONAL SYSTEM WILL BE MUCH GREATER THAN THE CURRENT PILOT TEST SYSTEM. THE

PILOT SYSTEM PRESENTLY IS RECEIVING ELECTRONIC FILINGS FROM 150 FILERS; THIS IS EXPECTED TO GROW TO UPWARDS OF 10,000 FILERS FOR THE OPERATIONAL SYSTEM. THE PILOT SYSTEM IS USING A FAIRLY BROAD SAMPLE OF THE TYPE OF FILINGS THAT WILL LIKELY BE IN THE OPERATIONAL SYSTEM; PROBABLY AS HIGH AS 75 TO 80 PERCENT. THE PILOT SYSTEM, HOWEVER, IS DEVELOPING AND TESTING ONLY ABOUT 50 PERCENT OF THE DATA PROCESSING AND ANALYTICAL FUNCTIONS THAT ARE LIKELY TO BE PERFORMED BY SEC ON THE DATA IN THE OPERATIONAL SYSTEM. CONSEQUENTLY, THE OPERATIONAL SYSTEM, AS PRESENTLY ENVISIONED, WILL INCLUDE NOT ONLY AN "OPERATIONAL" EFFORT BUT ALSO A CONSIDERABLE "DEVELOPMENTAL" EFFORT.

THE SEC'S STRATEGY OF PILOT TESTING A SYSTEM BEFORE IT IS PUT OUT FOR COMPETITIVE BID IS WISE, PARTICULARLY FOR A NO-COST CONTRACT. IN OUR VIEW IT IS QUESTIONABLE WHETHER THE PRIVATE SECTOR WILL BID A NO-COST CONTRACT ON THE "DEVELOPMENTAL" ASPECTS OF THE PROPOSED FOLLOW-ON SYSTEM.

FINALLY, THERE IS A POLICY QUESTION ON THE SETTING OF FEES TO BE CHARGED TO THE PUBLIC UNDER A NO-COST CONTRACT. UNDER EXISTING LAW, THE SEC COULD ONLY RECOVER THE COSTS ATTRIBUTABLE TO PROVIDING INFORMATION TO THE PUBLIC. SEC COULD NOT RECOVER FROM THE PUBLIC COSTS ATTRIBUTABLE TO THE DEVELOPMENT OR OPERATION OF ADP SYSTEMS NECESSARY TO MEET SEC'S INTERNAL DATA PROCESSING MISSION REQUIREMENTS. UNDER SEC'S CONCEPT OF A NO-COST CONTRACT, IT WOULD APPEAR THAT THESE COSTS WOULD BE BORNE BY THE PUBLIC.

SUMMARY GAO OBSERVATIONS

IN OUR OPINION THE EDGAR CONCEPT OFFERS THE POTENTIAL FOR REDUCING THE COST OF FILING CORPORATE DISCLOSURE DOCUMENTS, ENHANCING

THE EFFECTIVENESS OF SEC IN EXAMINING THESE FILINGS, AND MAKING THESE FILINGS MORE READILY AND EFFICIENTLY AVAILABLE TO THE PUBLIC. THE SEC'S STRATEGY OF PILOT TESTING SUCH A LARGE AND COMPLEX SYSTEM MAKES A LOT OF SENSE.

BASED UPON OUR LIMITED INQUIRY, IT APPEARS THAT SEC'S PUSH TO MEET MILESTONES IS FORCING DECISIONS WHICH MAY BE COMPROMISING THE MANAGEMENT OF THE PROJECT AND THE OPPORTUNITIES TO MORE FULLY REALIZE THE POTENTIAL PRODUCTIVITY GAINS AFFORDED BY EDGAR. ACCORDINGLY, THE COMMITTEE MAY WANT TO EXPLORE WITH SEC THE FOLLOWING ISSUES:

1. SHOULD THE MILESTONES FOR PHASE II OF THE EDGAR PILOT BE EXTENDED TO ALLOW THE PILOT TO FULLY TEST ALL THE ORIGINAL DATA PROCESSING AND ANALYTICAL FUNCTIONS WHICH WOULD IMPROVE THE PRODUCTIVITY OF SEC'S OVERSIGHT AND EXAMINATION FUNCTIONS; SPECIFICALLY, AUTOMATED TAGGING OR SOME SUITABLE ALTERNATIVE, AUTOMATED SELECTION, AND AUTOMATED DEVELOPMENT OF FINANCIAL PROFILES?
2. SHOULD TECHNICAL OVERSIGHT/EVALUATION OF THE EDGAR PROJECT BE RESTORED TO A TECHNICALLY PROFICIENT AND OBJECTIVE LEVEL? IF SO HOW?
3. SHOULD THE OPERATIONAL SYSTEM BE LIMITED TO THE APPLICATIONS DEVELOPED AND TESTED UNDER PHASE II OF THE PILOT? SHOULD ADDITIONAL APPLICATIONS, NOT INCLUDED IN THE DEVELOPMENTAL PILOT, BE SEPARATED FROM THE OPERATIONAL SYSTEM UNTIL THEY HAVE BEEN PROPERLY DEVELOPED AND TESTED?
4. SHOULD GSA REVIEW THE TERMS OF THE EXISTING CONTRACT TO DETERMINE IF A DPA WAS REQUIRED AND WHETHER IT IS NECESSARY TO

INITIATE NEGOTIATIONS WITH ARTHUR ANDERSEN AND/OR IBM TO AFFECT COST REDUCTIONS OF THE HARDWARE AND SOFTWARE PROVIDED UNDER THE CONTRACT? ALSO, SHOULD DELEGATION OF PROCUREMENT AUTHORITY BE OBTAINED FOR THE OPERATIONAL PHASE OF EDGAR?

5. SHOULD THE SEC SET FEES TO ENSURE THAT THE PUBLIC IS CHARGED ONLY THE COSTS INCURRED TO PROVIDE BASIC DISSEMINATION SERVICES?

IN OUR OPINION THE COMMITTEE MAY WANT TO REQUEST SEC TO REPORT BACK TO IT ON THE QUESTIONS RAISED HERE AND RESULTS OF THE EDGAR PILOT PRIOR TO THE EDGAR OPERATIONAL PHASE. MR. CHAIRMAN, THIS CONCLUDES OUR STATEMENT; WE WILL BE HAPPY TO ANSWER QUESTIONS.